UNITRIN DIRECT INSURANCE COMPANY
STATUTORY BASIS FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES
DECEMBER 31, 2008 AND 2007

NAIC Company Code 10226, Group Code 0215

(With Independent Auditors' Report Thereon)

UNITRIN DIRECT INSURANCE COMPANY
STATUTORY BASIS FINANCIAL STATEMENTS AND SCHEDULES
DECEMBER 31, 2008 AND 2007

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Unitrin Direct Insurance Company
Chicago, IL

We have audited the accompanying statutory-basis statements of admitted assets, liabilities and capital and surplus of Unitrin Direct Insurance Company (the "Company") as of December 31, 2008 and 2007, and the related statutory-basis statements of income, changes in capital and surplus, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described more fully in Note 1 to the financial statements, the Company prepared these financial statements using accounting practices prescribed or permitted by the Insurance Department of the State of Illinois, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, such statutory-basis financial statements present fairly, in all material respects, the admitted assets, liabilities, and capital and surplus of Unitrin Direct Insurance Company as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in Note 1.

Our 2008 audit was conducted for the purpose of forming an opinion on the basic 2008 statutory-basis financial statements taken as a whole. The supplemental summary investment schedule, the supplemental investment risks interrogatories schedule, and the supplemental reinsurance interrogatories schedule as of and for the year ended December 31, 2008 are presented for purposes of additional analysis and are not a required part of the basic 2008 statutory-basis financial statements. These schedules are the responsibility of the Company's management. Such schedules have been subjected to the auditing procedures applied in our audit of the basic 2008 statutory-basis financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic 2008 statutory-basis financial statements taken as a whole.

This report is intended solely for the information and use of the board of directors and the management of Unitrin Direct Insurance Company and for filing with state insurance departments to whose jurisdiction the Company is subject and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

May 20, 2009

UNITRIN DIRECT INSURANCE COMPANY
STATUTORY BASIS STATEMENTS OF
ADMITTED ASSETS, LIABILITIES AND CAPITAL AND SURPLUS
AT DECEMBER 31, 2008 AND 2007
(Dollars in Thousands, Except Par Value)

ADMITTED ASSETS

	2008	2007
Cash and Invested Assets:		
Bonds and Notes		
(Market: 2008 - $8,846; 2007 - $12,773)	$ 8,306	$ 12,474
Cash and Short Term Investments	5,468	3,626
Total Cash and Invested Assets	13,774	16,100
Accrued Investment Income	142	209
Receivable from Parent, Subsidiary and Affiliates	8,244	6,229
Agents' Balances and Uncollected Premiums	13,208	12,482
Deferred Tax Asset	92	-
Other Assets	655	814
Total Admitted Assets	$ 36,115	$ 35,834

LIABILITIES AND CAPITAL AND SURPLUS

	2008	2007
Liabilities:		
Reserve for Losses	$ 3,816	$ 2,825
Reserve for Loss Adjustment Expenses	680	583
Unearned Premiums	1,819	1,805
Advance Premium	262	304
Ceded Reinsurance Premiums Payable	11,649	11,308
Accrued Expenses and Other Liabilities	6,522	5,428
Total Liabilities	24,748	22,253
Capital and Surplus:		
Common Stock, $156.25 Par Value, 16,000 Shares		
Authorized and Issued, and 10,000 Shares Outstanding	2,500	2,500
Additional Paid-in Capital	25,500	25,500
Treasury Stock, 6,000 Shares at Cost	(12,000)	(12,000)
Unassigned Deficit	(4,633)	(2,419)
Total Capital and Surplus	11,367	13,581
Total Liabilities and Capital and Surplus	$ 36,115	$ 35,834

The Notes to the Statutory Basis Financial Statements are an integral part of these financial statements.

UNITRIN DIRECT INSURANCE COMPANY
STATUTORY BASIS STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMB ER 31, 2008 AND 2007
(Dollars in Thousands)

	2008	2007
Earned Premiums, Net	$ 7,450	$ 7,167
Underwriting Expenses:		
Losses Incurred	6,341	5,139
Losses Adjustment Expenses Incurred	952	927
Other Underwriting Expenses	2,582	2,639
Total Underwriting Expenses	9,875	8,705
Net Underwriting Loss	(2,425)	(1,538)
Net Investment Income:		
Investment Income	475	709
Net Realized Capital Gains (Net of Income Tax Expense: 2008 - $0; 2007 - $3)	41	6
Net Investment Income	516	715
Other Income, Net	318	442
Loss before Federal Income Taxes	(1,591)	(381)
Federal Income Tax Expense	-	(1,253)
Net Income (Loss)	$ (1,591)	$ 872

The Notes to the Statutory Basis Financial Statements are an integral part of these financial statements.

UNITRIN DIRECT INSURANCE COMPANY
STATUTORY BASIS STATEMENTS
OF CHANGES IN CAPITAL AND SURPLUS
FOR THE YEARS ENDED DECEMB ER 31, 2008 AND 2007
(Dollars in Thousands)

	2008	2007
Balance, Beginning of Year	$ 13,581	$ 14,097
Net Income (Loss)	(1,591)	872
Change in Nonadmitted Assets	(1,432)	(966)
Change in Net Deferred Income Tax	809	(422)
Balance, End of Year	$ 11,367	$ 13,581

The Notes to the Statutory Basis Financial Statements are an integral part of these financial statements.

UNITRIN DIRECT INSURANCE COMPANY
STATUTORY BASIS STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMB ER 31, 2008 AND 2007
(Dollars in Thousands)

	2008	2007
Cash from Operations:		
Premiums Collected, Net of Reinsurance	$ 7,077	$ 6,602
Investment Income, Net	557	756
Miscellaneous Income	318	442
Sub-total	7,952	7,800
Benefits and Loss Related Payments	(5,350)	(4,748)
Commissions, Expenses Paid and Aggregate Write-ins for Deductions	(2,119)	(2,281)
Federal Income Tax Recovered	-	246
Net Cash Provided by Operations	483	1,017
Cash from Investments:		
Proceeds from Investments Sold, Matured or Repaid:		
Bonds and Notes	4,193	3,402
Net Cash Provided by Investments	4,193	3,402
Cash from Financing and Miscellaneous Sources:		
Other Cash Applied	(2,834)	(2,058)
Net Cash Used by Financing and Miscellaneous Sources	(2,834)	(2,058)
Increase in Cash and Short Term Investments	1,842	2,361
Cash and Short Term Investments at Beginning of Year	3,626	1,265
Cash and Short Term Investments at End of Year	$ 5,468	$ 3,626

The Notes to the Statutory Basis Financial Statements are an integral part of these financial statements.

Note 1 - Summary of Significant Accounting Policies

Nature of Business
Unitrin Direct Insurance Company (the "Company"), a property and casualty insurance company domiciled in Illinois, is a wholly-owned subsidiary of Trinity Universal Insurance Company ("Trinity"), which in turn is a wholly-owned subsidiary of Unitrin, Inc. ("Unitrin"). The Company markets a full line of personal automobile insurance products utilizing direct marketing in several states. The Company is currently licensed in Michigan, New York, Pennsylvania, California, Indiana, Iowa, Illinois, Arizona, Maryland, Virginia and New Jersey, and Texas. The Company currently is writing direct market private passenger automobile insurance in California, New York, Maryland, Illinois, Iowa, Texas and New Jersey.

Basis of Presentation
The Company prepares its statutory basis financial statements in conformity with accounting practices prescribed by the Illinois Department of Insurance ("IDOI"). The IDOI requires insurance companies domiciled in its state to prepare statutory basis financial statements in accordance with the National Association of Insurance Commissioners ("NAIC") Accounting Practices and Procedures Manual ("SSAP") subject to any deviations prescribed or permitted by the IDOI.

Accounting practices and procedures of the NAIC as prescribed by theIDOI comprise a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America ("GAAP"). The more significant differences relevant to the Company are:

a. Certain costs of acquiring insurance business, principally agents' compensation, marketing costs and premium taxes, are expensed as incurred rather than deferred and amortized to income as premiums are earned.

b. Investments in Bonds and Notes are stated at values in accordance with SSAP, generally at amortized cost, rather than fair value.

c. Realized investment gains or losses are reported net of related income taxes in the statutory basis statement of income, whereas under GAAP such gains or losses are reported gross of tax.

d. Income taxes paid or provided for amounts currently due or recoverable are recorded in income. Deferred income taxes resulting from temporary differences between the statutory basis financial statement carrying amounts of existing assets and liabilities and their respective tax bases are reported as direct adjustments to Unassigned Deficit, subject to limitations, whereas under GAAP such temporary differences are recorded in income.

Note 1 - Summary of Significant Accounting Policies (continued)

e. Under SSAP, insurers account for the portion of the risks which have been reinsured with other companies as though they were not risks for which the original insurer is liable. Accordingly, reserves for losses and loss adjustment expenses and unearned premiums are shown net of reinsurance in these statutory basis financial statements.

f. Financial statements prepared in accordance with SSAP do not include a statement of comprehensive income, whereas financial statements prepared in accordance with GAAP include a statement of comprehensive income.

Use of Estimates and Assumptions
The preparation of statutory basis financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the statutory basis financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Significant Accounting Policies
The significant statutory accounting practices used in the preparation of the statutory basis financial statements are summarized below:

a) Investments are carried in accordance with valuations prescribed or permitted by the accounting practices of the IDOI. Statement values of investments in Bonds and Notes are generally at amortized cost. Statement values of short-term investments are at cost, which approximates market. Fair values are based on prices primarily provided by independent pricing services using models based on observable market inputs. Realized gains and losses on investments are computed on the specific identification method. The Company has no derivative financial instruments.

The Company regularly reviews its investment portfolio for factors that may indicate that a decline in fair value of an investment is other than temporary. Some factors considered in evaluating whether a decline in fair value is other than temporary include: 1) the Company's ability and intent to retain the investment for a period of time sufficient to allow for a recovery in value; 2) the duration and extent to which the fair value has been less than cost; and 3) the financial condition and prospects of the issuer. Losses arising from other than temporary declines in fair value are computed on a specific identification method and are recorded in the Statutory Basis Statement of Income in the period in which the decline was determined to be other than temporary.

Note 1 - Summary of Significant Accounting Policies (continued)

b) Investment income consists primarily of interest and dividends. Interest is recognized on an accrual basis using the effective yield method and dividends are recorded on the ex-dividend date. Accrual of income is suspended for bonds that are in default or when the receipt of interest payments is in doubt;

c) Certain assets designated as "Non-admitted Assets", principally deferred tax assets in excess of certain limits, furniture and equipment, electronic data processing equipment and certain prepaid expenses are charged to Unassigned Deficit. Non-admitted Assets at December 31, 2008 and 2007 were $10,089 and $8,657, respectively;

d) Reserves for losses and loss adjustment expenses on property and liability coverage represent the estimated indemnity cost and loss adjustment expense necessary to cover the ultimate net cost of investigating and settling all losses incurred and unpaid. Such estimates are based on individual case estimates for reported claims and estimates for incurred but not reported losses based on past experience. These estimates are adjusted in the aggregate for ultimate loss expectations based on historical experience patterns and current economic trends with any change in probable ultimate liabilities being reflected in current income; such changes in estimates may be material. Reserves for losses and loss adjustment expenses are carried net of reinsurance and salvage and subrogation;

e) Premium revenue is recognized ratably over the periods to which the premium revenue relates and is reported net of reinsurance;

f) Costs associated with the acquisition of new business are expensed when incurred;

g) Income taxes paid or provided for amounts currently due or recoverable are recorded in income. Deferred income taxes resulting from temporary differences between statutory basis financial statement carrying amounts of existing assets and liabilities and their respective tax bases are reported as direct adjustments to Unassigned Deficit, subject to admissibility limitations, if any, and;

h) Affiliates charged the Company for services at rates that approximate cost.

(Dollars in Thousands)

Note 2 - Investments

The statement value and fair value of the Company's investments in Bonds and Notes at December 31, 2008 were:

	Statement Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government and Government Agencies and Authorities	$ 2,437	$ 787	$ -	$ 3,224
States, Municipalities and Political Subdivisions	4,511	18	(304)	4,225
Mortgage-backed Securities	1,358	39	-	1,397
Investments in Bonds and Notes	$ 8,306	$ 844	$ (304)	$ 8,846

The statement value and fair value of the Company's investments in Bonds and Notes at December 31, 2007 were:

	Statement Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government and Government Agencies and Authorities	$ 2,445	$ 306	$ -	$ 2,751
States, Municipalities and Political Subdivisions	8,442	81	(63)	8,460
Mortgage-backed Securities	1,587	1	(26)	1,562
Investments in Bonds and Notes	$ 12,474	$ 388	$ (89)	$ 12,773

An aging of unrealized losses on the Company's investments in Bonds and Notes at December 31, 2008 is presented below:

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Investment in Bonds and Notes						
States, Municipalities and and Political Subdivisions	$ 2,479	$ (34)	$ 1,230	$ (270)	$ 3,709	$ (304)
Total	$ 2,479	$ (34)	$ 1,230	$ (270)	$ 3,709	$ (304)

(Dollars in Thousands)

Note 2 - Investments (continued)

An aging of unrealized losses on the Company's investments in Bonds and Notes at December 31, 2007 is presented below:

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Investment in Bonds and Notes						
States, Municipalities and and Political Subdivisions	$ 1,441	$ (59)	$ 1,565	$ (4)	$ 3,006	$ (63)
Mortgage-backed Securities	-	-	1,462	(26)	1,462	(26)
Total	$ 1,441	$ (59)	$ 3,027	$ (30)	$ 4,468	$ (89)

Unrealized losses on investment at December 31, 2008 and 2007 are primarily concentrated in investments in highly rated bond and notes, which the Company expects to fully recover.

The statement value and fair value of the Company's investments in Bonds and Notes at December 31, 2008 by contractual maturity were:

	Statement Value	Fair Value
Due After One to 5 Years	$ 250	$ 265
Due After 5 to 10 Years	-	-
Due After 10 Years	6,698	7,184
Mortgage-backed securities	1,358	1,397
Total Investments in Bonds and Notes	$ 8,306	$ 8,846

The expected maturities may differ from the contractual maturities because debtors may have the right to call or prepay obligations with or without call or prepayment penalties.

The statement value of bonds on deposit with various insurance regulatory agencies at December 31, 2008 and 2007 were $2,437 and $2,444, respectively.

(Dollars in Thousands)

Note 2 - Investments (continued)

The Company's proceeds on sales of investments and realized gains and losses are summarized as follows:

	2008	2007
Proceeds from Sales:		
Bonds and Notes	$ 3,963	$ 3,169
Gross Realized Gains:		
Bonds and Notes	$ 49	$ 9
Gross Realized Losses:		
Bonds and Notes	$ 8	$ -

There were no realized capital losses resulting from other than temporary declines in fair value of investments for the years ended December 31, 2008 and 2007.

Note 3 – EDP Equipment, Furniture and Fixtures

A. EDP Equipment:

At December 31, 2008, the Company held EDP Equipment in the amount of $2,797, net of accumulated depreciation of $10,721. $2,443 of these assets were nonadmitted based on certain limits defined in SSAP No. 16 – *Electronic Data Processing Equipment and Software.* The Company recorded $1,837 of depreciation expense related to EDP Equipment in 2008.

At December 31, 2007, the Company held EDP Equipment in the amount of $2,892, net of accumulated depreciation of $9,243. $2,462 of these assets were nonadmitted based on certain limits defined in SSAP No. 16 – *Electronic Data Processing Equipment and Software.* The Company recorded $1,268 of depreciation expense related to EDP Equipment in 2007.

(Dollars in Thousands)

Note 3 – EDP Equipment, Furniture and Fixtures (continued)

Depreciation methods and asset balances, net of accumulated depreciation, by major classes of EDP Equipment as of December 31, 2008 and 2007 are as follows:

Asset Class	2008	2007	Depreciation Method
Computer Equipment	$ 667	$ 1,071	Straight-line, 5 years
Operating system software	221	237	Straight-line, 5 years
Non-operating system software	1,909	1,584	Straight-line, 5 years
Total EDP Equipment	$ 2,797	$ 2,892	

B. Furniture and Equipment:

The Company recorded depreciation expense of $548 and $558 related to Furniture and Equipment for the years ended December 31, 2008 and 2007, respectively. Depreciation methods for major classes of Furniture and Equipment as of December 31, 2008 are as follows:

Asset Class	Depreciation Method
Furniture & Fixtures	Straight-line, 5 years
Office Equipment	Straight-line, 3 & 5 years
Telecom Equipment	Straight-line, 5 years

Note 4 - Insurance Reserves

Loss and loss adjustment expense reserve activity for the years ended December 31, 2008 and 2007 was:

	2008	2007
Liability Beginning of Year, Net of Reinsurance	$ 3,408	$ 2,956
Incurred Related to:		
Current Year	6,931	5,947
Prior Years	362	119
Total Incurred	7,293	6,066
Paid Related to:		
Current Year	4,024	3,767
Prior Years	2,181	1,847
Total Paid	6,205	5,614
Liability End of Year, Net of Reinsurance	$ 4,496	$ 3,408

Reserves for incurred losses and loss adjustment expenses attributable to insured events of prior years increased by $362 and $119 in 2008 and 2007, respectively, as a result of re-estimation of unpaid losses and loss adjustment expenses. These increases are generally the result of ongoing analysis of recent loss development trends. Original estimates are increased or decreased as additional information becomes known regarding individual claims.

(Dollars in Thousands)

Note 4 - Insurance Reserves (continued)

Reinsurance recoverables from affiliates for unpaid losses and loss adjustment expenses were $40,558 and $30,777 at December 31, 2008 and 2007, respectively. There were no reinsurance recoverables from unaffiliated reinsurers at December 31, 2008 and 2007 (See Note 6 - Reinsurance for additional information).

Note 5 - Capital and Surplus

Various state insurance laws restrict the amount that insurance companies may transfer in the form of dividends, loans, or advances without prior approval of regulatory authorities. In 2008, the Company would not be able to pay a dividend to its shareholder without prior written approval of regulatory authorities.

Unassigned Surplus at December 31, 2008 and 2007 includes:

	2008	2007
Nonadmitted Assets	$ (10,089)	$ (8,657)

Note 6 - Reinsurance

The Company utilizes reinsurance arrangements to limit its maximum loss, provide greater diversification of risk, and minimize exposure on larger risks. The ceding of insurance does not relieve the Company of its legal liability to its policyholders. However, in accordance with statutory accounting practices, reserves for losses, loss adjustment expenses and unearned premium are reported net of reinsurance. Amounts recoverable from reinsurers are estimated in a manner consistent with the reserves for losses, loss adjustment expenses and unearned premium. Written premiums ceded to unaffiliated companies were $335 and $219 in 2008 and 2007, respectively.

Affiliated Reinsurance

The Company and Trinity are parties to a quota share reinsurance agreement whereby the Company cedes and Trinity assumes 90% of the liabilities for policies issued or renewed by the Company. Losses recoverable on paid and unpaid losses at December 31, 2008 and 2007 were $40,558 and $30,777, respectively. Ceded unearned premiums reserves at December 31, 2008 and 2007 were $16,373 and $16,246, respectively. Total losses and loss adjustment expenses recovered under the agreement were $55,847 and $50,517 in 2008 and 2007, respectively.

(Dollars in Thousands)

Note 6 – Reinsurance (continued)

The effects of reinsurance on written premiums are as follows:

Year Ended	Direct	Assumed	Ceded	Net
December 31, 2008:				
Affiliated	$ 74,954	$ -	$ 67,155	$ 7,799
Unaffiliated	-	-	335	(335)
Total	$ 74,954	$ -	$ 67,490	$ 7,464
December 31, 2007:				
Affiliated	$ 72,017	$ -	$ 64,618	$ 7,399
Unaffiliated	-	-	219	(219)
Total	$ 72,017	$ -	$ 64,837	$ 7,180

Note 7 - Federal Income Taxes

The components of the net deferred tax asset (liability) in the Company's Assets, Liabilities and Capital and Surplus at December 31, 2008 and 2007 are as follows:

	2008	2007
Total of All Deferred Tax Assets (Admitted and Nonadmitted)	$ 4,135	$ 3,123
Total of All Deferred Tax Liabilities	(599)	(396)
Net Admitted and Nonadmitted Deferred Tax Asset	3,536	2,727
Total Deferred Tax Assets Nonadmitted as a result of the application of SSAP No. 10	3,444	2,727
Net Admitted Deferred Tax Asset	$ 92	$ -
Increase (Decrease) in Total Deferred Tax Assets Nonadmitted	$ 717	$ (422)

The Company does not have any deferred tax liabilities that are not recognized.

The provisions for incurred taxes on earnings for the years ended December 31, 2008 and 2007 are as follows:

	2008	2007
Federal Income Tax Benefit	$ -	$ (1,253)
Federal Income Tax Expense on Net Capital Gains	-	3
Federal Income Tax Benefit	$ -	$ (1,250)

(Dollars in Thousands)

Note 7 - Federal Income Taxes (continued)

The Company reported no foreign income taxes in 2008 and 2007.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2008 and 2007 are as follows:

	2008	2007
Deferred Tax Assets		
Unearned & Tax Advance Premiums	$ 146	$ 148
Employee Benefits	571	684
Net Operating Loss	740	-
Nonadmitted Assets	2,325	2,075
Other	353	216
Total Deferred Tax Assets (Admitted and Nonadmitted)	4,135	3,123
Total Deferred Tax Assets Nonadmitted as a result of the Application of SSAP No. 10	(3,444)	(2,727)
Admitted Deferred Tax Asset	691	396
Deferred Tax Liabilities		
Bonds	2	-
Prepaid Expenses	592	395
Other	5	1
Total Deferred Tax Liabilities	599	396
Net Admitted Deferred Tax Asset	$ 92	$ -

The change in net deferred income taxes is comprised of the following:

	Dec. 31, 2008	Dec. 31, 2007	Change
Total Deferred Tax Assets (Admitted and Nonadmitted)	$ 4,135	$ 3,123	$ 1,012
Total Deferred Tax Liabilities	599	396	203
Net Admitted and Nonadmitted Deferred Tax Asset	$ 3,536	$ 2,727	809
Tax Effect of Unrealized Gains (Losses)			-
Change in Net Deferred Income Tax			$ 809

(Dollars in Thousands)

Note 7 - Federal Income Taxes (continued)

The provision for federal income taxes incurred is different from that which would be obtained by applying the statutory federal income tax rate to income before income taxes, including income from net realized capital gains (losses) before income taxes of $41 in 2008 and $9 in 2007. The significant items causing this difference for the years ended December 31, 2008 and 2007 are as follows:

	2008	2007
Tax Provision at Statutory Rate	$ (557)	$ (132)
Tax Exempt Income Deduction	(71)	(111)
Other	69	3
Total Statutory Income Taxes	$ (559)	$ (240)
Federal Income Taxes Incurred	$ -	$ (1,250)
Change in Net Deferred Income Tax	(809)	422
Less: Deferred Tax Effect on Nonadmitted Assets Included Above	250	588
Total Statutory Income Taxes	$ (559)	$ (240)

At December 31, 2008, the Company had a net operating loss carryforward of $2,113. At December 31, 2008, the Company has no federal income taxes incurred in the current and prior year that are available for recoupment in the event of future net losses.

Note 7 - Federal Income Taxes (continued)

The Company is included in a consolidated federal income tax return with the following companies:

Alpha Property & Casualty Insurance Company
Charter General Agency, Inc.
Charter Group, Inc.
Charter Indemnity Company
Clayton Reinsurance Bermuda
Family Security Funerals Company
Financial Indemnity Company
Fireside Bank
Fireside Securities Corporation
Kemper Auto and Home Group, Inc.
Kemper Enterprise Agency, Inc.
Kemper Independence Insurance Company
Merastar Industries, Ltd.
Merastar Insurance Company
Milwaukee Casualty Insurance Co.
Mutual Benefit Assessment Corporation
National Association of Medicare Members, Inc.
National Association of Self-Employed Business Owners
NCM Management Corporation
One East Wacker Corporation
The Reliable Life Insurance Company
The Reliable Life Insurance Company of Texas
Primesco, Inc.
Reserve National Insurance Company
Rural American Consumer
Security National Insurance Company
Security One Insurance Agency
Southern States Finance Corporation
Summerset Marketing Company
Trinity Lloyd's Corporation
Trinity Lloyd's Insurance Company
Trinity Universal Insurance Company
Trinity Universal Insurance Company of Kansas, Inc.
Union National Fire Insurance Company
Union National Life Insurance Company
United Casualty Insurance Company of America
United Insurance Company of America
Unitrin Advantage Insurance Company
Unitrin Auto and Home Insurance Company
Unitrin Data Systems, Inc.
Unitrin Direct General Agency, Inc.
Unitrin Direct Property & Casualty Company
Unitrin Internal Audit Services, Inc.
Unitrin Preferred Insurance Company
Unitrin Safeguard Insurance Company
Unitrin Services Company
Unitrin, Inc.
Valley Group, Inc.
Valley Insurance Company
Valley Pacific, Inc.
Valley Property & Casualty Insurance Company

The Company is subject to Federal income taxation as a property and casualty insurance company. The method of tax allocation among the companies is subject to written agreements. In accordance with its agreement, the Company pays Federal income tax on a separate company basis.

Note 8 – Retirement Plan

Unitrin sponsors a defined benefit pension plan covering substantially all of the Company's employees. Benefits are based on the employee's years of service and compensation during employment. Unitrin's annual contributions are made at an amount necessary to meet the funding requirements of the Employee Retirement Income Security Act of 1974, as amended. Pension expense of $997 and $805 was allocated to the Company in 2008 and 2007, respectively.

Unitrin also sponsors several defined contribution benefit plans covering most of the Company's employees. The Company incurred expense of $649 and $463 for contributions in 2008 and 2007, respectively.

Note 9 - Related Party Transactions

The Company and Unitrin Services Company ("USC"), a wholly-owned subsidiary of Unitrin, are parties to a general services agreement whereby USC provides certain management services, group medical insurance and other insurance to the Company. Additionally, the Company and USC are parties to a data processing agreement whereby USC provides certain data processing services to the Company. The Company and Trinity are parties to an administrative services agreement whereby Trinity provides certain management services to the Company. Services between the Company and its affiliates are charged at rates that approximate cost. Total expenses incurred under the agreements were $164 and $161 for the years ended December 31, 2008 and 2007, respectively.

The Company entered into a general services agreement to provide First Notice of Loss services to Alpha Property & Casualty Insurance Company ("Alpha"), Charter Indemnity Company ("CIC"), Financial Indemnity Company ("FIC") and Unitrin County Mutual Insurance Company ("UCMIC"), subsidiaries of Trinity, effective March 1, 2006. Total income recorded by the Company under this agreement was $1,116 and $846 for the years ended December 31, 2008 and 2007, respectively.

The Company entered into a general services agreement with Alpha, effective April 1, 2001. Total fees recorded by the Company under this agreement were not material for the years ended December 31, 2008 and 2007.

Note 10 - Contingencies

The Company is a party to various legal actions incidental to its business. Although no assurances can be given and no determination can be made at this time as to the outcome of any particular legal action, the Company believes that there are meritorious defenses to these legal actions and is defending them vigorously. The Company believes that resolution of these matters will not have a material adverse effect on the Company's financial position or results of operations.

(Dollars in Thousands)

Note 11 – Leases

The Company leases office facilities and equipment under various noncancelable operating lease agreements that have various expiration dates. These leases do not contain any contingent rental commitments or dividend restrictions. Rental expense for 2008 and 2007 was $3,456 and $2,325, respectively.

At December 31, 2008, the minimum aggregate rental commitments are as follows:

Year	Amount
2009	$ 2,520
2010	2,157
2011	1,553
2012	497
2013	275
2014 and thereafter	484
Total Future Rental Commitments	$ 7,486

The Company has not entered into any sale and leaseback arrangements.

Note 12 - Estimated Fair Value of Financial Instruments

Estimates of fair values are made at a specific point in time, based on relevant market prices and information about the financial instrument. The estimated fair values of financial instruments presented in Note 2 are not necessarily indicative of the amounts the Company might realize in actual market transactions.

Estimated fair values for fixed income securities are based on prices primarily provided by independent pricing services using models based on observable market inputs.

For cash and short-term investments, accrued investment income and receivable from affiliates, the carrying amounts approximate estimated fair value because of the short maturity of such financial instruments. In addition, the carrying amount of accrued expenses and payable to affiliates approximates estimated fair value because of the short maturity of such financial instruments.

(Dollars in Thousands)

Note 13 – Reconciliation to the Annual Statement

In 2008, the Company incorrectly carried back the net operating loss and subsequently recorded a current income tax recoverable. Since the Company does not have taxable income to carry the net operating loss back, it should have established a deferred tax asset, which is subject to admissibility tests. The deferred tax asset did not pass the admissibility tests and was therefore non-admitted.

The following is a reconciliation of Net Realized Capital Gains (Losses), Net Investment Income, Loss before Federal Income Taxes, Federal Income Taxes and Net Income per the annual statement to the accompanying statutory basis financial statements at December 31, 2008:

	Per Annual Statement	Increase (Decrease)	Per Statutory Basis Financial Statements
Net Realized Capital Gains (Losses)	$ 26	$ 15	$ 41
Net Investment Income	501	15	516
Loss before Federal Income Taxes	(1,606)	15	(1,591)
Federal income Tax (Benefit) Expense	(678)	678	-
Net Loss	$ (928)	$ (663)	$ (1,591)

The following is a reconciliation of Deferred Tax Asset, Other Assets, Total Admitted Assets, Unassigned Deficit, Total Capital and Surplus, and Total Liabilities and Capital and Surplus per the annual statement to the accompanying statutory basis Statement of Admitted Assets, Liabilities and Capital and Surplus at December 31, 2008:

	Per Annual Statement	Increase (Decrease)	Statutory Basis Financial Statements
Deferred Tax Asset	$ 501	$ (409)	$ 92
Other Assets	1,318	(663)	655
Total Admitted Assets	37,187	(1,072)	36,115
Unassigned Deficit	(3,561)	(1,072)	(4,633)
Total Capital and Surplus	12,439	(1,072)	11,367
Total Liabilities and Capital and Surplus	$ 37,187	$ (1,072)	$ 36,115

(Dollars in Thousands)

Note 13 – Reconciliation to the Annual Statement (continued)

The following is a reconciliation of total capital and surplus per the annual statement to the accompanying statutory basis financial statements at December 31, 2008:

	Per Annual Statement	Increase (Decrease)	Per Statutory Basis Financial Statements
Balance, January 1, 2008	$ 13,581	$ -	$ 13,581
Net Loss	(928)	(663)	(1,591)
Change in Nonadmitted Assets	(283)	(1,149)	(1,432)
Change in Deferred Income Tax	69	740	809
Balance, December 31, 2008	$ 12,439	$ (1,072)	$ 11,367

The following is a reconciliation of admitted assets and liabilities per the annual statement to the accompanying statutory basis financial statements at December 31, 2008:

	2008
Total Admitted Assets Per Annual Statement	$ 37,187
Federal Income Taxes	(1,072)
Total Admitted Assets Per the Statutory Basis Financial Statements	$ 36,115

UNITRIN DIRECT INSURANCE COMPANY
SCHEDULE 1 - SUPPLEMENTAL SUMMARY INVESTMENT SCHEDULE
DECEMBER 31, 2008
(Dollars in Thousands)

	Gross Investment Holdings		Admitted Assets Per Annual Statement	
Investment Categories	Amount	Percentage	Amount	Percentage
Bonds:				
U.S. Treasury Securities	$ 2,437	17.69 %	$ 2,437	17.69 %
Securities issued by States, Territories, and Possessions and Political Subdivisions in the U.S.:				
States, Territories and Possessions				
General Obligation Obligations	4,511	32.75	4,511	32.75
Mortgage-backed Securities	1,358	9.86	1,358	9.86
Cash and Short-term Investments	5,468	39.70	5,468	39.70
Total Invested Assets	$ 13,774	100.00 %	$ 13,774	100.00 %

See Accompanying Independent Auditors' Report.

UNITRIN DIRECT INSURANCE COMPANY
SCHEDULE 2 -SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2008

Answer the following interrogatories by reporting the applicable U. S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments.

1. Reporting entity's total admitted assets as reported on Page 2 of this annual statement. $36,114,772

2. Ten largest exposures to a single issuer/borrower/investment.

1	2	3	4
Issuer	Investment Category/Description of Exposure	Amount	Percentage of Total Admitted Assets
2.01 JPMorgan Chase	Cash	$ 2,055,155	5.7 %
2.02 Texas State	States, Territories & Possessions	$ 1,499,902	4.2 %
2.03 Rhode Island	States, Territories & Possessions	$ 1,005,382	2.8 %
2.04 Connecticut State	States, Territories & Possessions	$ 521,136	1.4 %
2.05 Delaware State	States, Territories & Possessions	$ 498,191	1.4 %
2.06 Arkansas State	States, Territories & Possessions	$ 493,970	1.4 %
2.07 Alaska State	States, Territories & Possessions	$ 492,105	1.4 %
2.08			
2.09			
2.10			

3. Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC rating.

	Bonds	1	2		Preferred Stocks	3	4
3.01	NAIC-1	$ 12,306,181	34.1 %	3.07	P/RP-1	$	%
3.02	NAIC-2	$	%	3.08	P/RP-2	$	%
3.03	NAIC-3	$	%	3.09	P/RP-3	$	%
3.04	NAIC-4	$	%	3.10	P/RP-4	$	%
3.05	NAIC-5	$	%	3.11	P/RP-5	$	%
3.06	NAIC-6	$	%	3.12	P/RP-6	$	%

4. Assets held in foreign investments:

4.01	Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets?		Yes [x] No [ ]
4.02	Total admitted assets held in foreign investments.	$	.... %
4.03	Foreign-currency-denominated investments.	$	.... %
4.04	Insurance liabilities denominated in that same foreign currency	$	____________%

If response, to 4.01 above is yes, responses are not required for interrogatories 5 – 10.

5. Aggregate foreign investment exposure categorized by NAIC sovereign rating:

		1	2
5.01	Countries rated NAIC-1	$	%
5.02	Countries rated NAIC-2	$	%
5.03	Countries rated NAIC-3 or below	$	%

See Accompanying Independent Auditors' Report.

UNITRIN DIRECT INSURANCE COMPANY
SCHEDULE 2 -SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES SCHEDULE
FOR THE YEAR ENDED DECEM BER 31, 2008

6. Two largest foreign investment exposures to in a single country, categorized by the country's NAIC sovereign rating:

		1	2
	Countries rated NAIC – 1:		
6.01	Country:	$	%
6.02	Country:	$	%
	Countries rated NAIC – 2:		
6.03	Country:	$	%
6.04	Country:	$	%
	Countries rated NAIC – 3 or below:		
6.05	Country:	$	%
6.06	Country:	$	%

		1	2
7.	Aggregate unhedged foreign currency exposure	$	%

8. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign rating:

		1	2
8.01	Countries rated NAIC – 1	$	%.................... %
8.02	Countries rated NAIC – 2	$	%
8.03	Countries rated NAIC – 3 or below	$	%

9. Two largest unhedged foreign currency exposures to a single country, categorized by the country's NAIC sovereign rating:

		1	2
	Countries rated NAIC – 1:		
9.01	Country:	$	%
9.02	Country:	$	%
	Countries rated NAIC – 2:		
9.03	Country:	$	%
9.04	Country:	$	%
	Countries rated NAIC – 3 or below:		
9.05	Country:	$	%
9.06	Country:	$	%

10. Ten largest non-sovereign (i.e. non-governmental) foreign issues:

	1 Issuer	2 NAIC Rating	3	4
10.01			$	%
10.02			$	%
10.03			$	%
10.04			$	%
10.05			$	%
10.06			$	%
10.07			$	%
10.08			$	%
10.09			$	%
10.10			$	%

See Accompanying Independent Auditors' Report.

11. Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure, including:

11.01 Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets? Yes [x] No [ ]

If response to 11.01 is yes, detail is not required for the remainder of Interrogatory 11.

		1	2
11.02	Total admitted assets held in Canadian Investments	$	%
11.03	Canadian-currency-denominated investments	$	%
11.04	Canadian-denominated insurance liabilities	$	%
11.05	Unhedged Canadian currency exposure	$	%

12. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions.

12.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? Yes [x] No [ ]

If response to 12.01 is yes, responses are detail is not required for the remainder of Interrogatory 12.

	1	2	3
12.02	Aggregate statement value of investments with contractual sales restrictions	$	%
	Largest 3 investments with contractual sales restrictions:		
12.03		$	%
12.04		$	%
12.05		$	%

13. Amounts and percentages of admitted assets held in the largest 10 equity interests:

13.01 Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets? Yes [x] No [ ]

If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13.

	1 Name of Investment/Issuer Category	2	3
13.02		$	%
13.03		$	%
13.04		$	%
13.05		$	%
13.06		$	%
13.07		$	%
13.08		$	%
13.09		$	%
13.10		$	%
13.11		$	%

See Accompanying Independent Auditors' Report.

UNITRIN DIRECT INSURANCE COMPANY
SCHEDULE 2 -SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES SCHEDULE
FOR THE YEAR ENDED DECEM BER 31, 2008

14. Amounts and percentages of the reporting entity's total admitted assets held in non-affiliated, privately placed equities:

14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets? Yes [x] No [ ]

If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14.

	1	2	3
14.02	Aggregate statement value of investments held in nonaffiliated, privately placed equities	$	%
	Largest 3 investments held in nonaffiliated, privately placed equities:		
14.03		$	%..................%
14.04		$	%..................%
14.05		$	%..................%

15. Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:

15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets? Yes [x] No [ ]

If response to 15.01 is yes, responses are not required for the remainder of Interrogatory 15.

	1	2	3
15.02	Aggregate statement value of investments held in general partnership interests	$	%...............%
	Largest 3 investments in general partnership interests:		
15.03		$	%...............%
15.04		$	%...............%
15.05		$	%...............%

16. Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:

16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets? Yes [x] No [ ]

If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

UNITRIN DIRECT INSURANCE COMPANY
SCHEDULE 2 -SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES SCHEDULE
FOR THE YEAR ENDED DECEM BER 31, 2008

	1 Type (Residential, Commercial, Agricultural)	2	3
16.02		$	%............%
16.03		$	%............%
16.04		$	%............%
16.05		$	%............%
16.06		$	%............%
16.07		$	%............%
16.08		$	%............%
16.09		$	%............%
16.10		$	%............%
16.11		$	%............%

Amount and percentage of the reporting entity's total admitted assets held in the following categories of mortgage loans:

		Loans
16.12 Construction loans	$	%
16.13 Mortgage loans over 90 days past due	$	%
16.14 Mortgage loans in the process of foreclosure	$	%
16.15 Mortgage loans foreclosed	$	%
16.16 Restructured mortgage loans	$	%

17.Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date:

Loan-to-Value	Residential		Commercial		Agricultural	
	1	2	3	4	5	6
17.01 above 95%	$	%	$	%	$	%
17.02 91% to 95%	$	%	$	%	$	%
17.03 81% to 90%	$	%	$	%	$	%
17.04 71% to 80%	$	%	$	%	$	%
17.05 below 70%	$	%	$	%	$	%

18.Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in one parcel or group of contiguous parcels of in real estate:

18.01 Are assets held in real estate reported in less than 2.5% of the reporting entity's total admitted assets? Yes [x] No [ ]

If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18.

Largest five investments in any one parcel or group of contiguous parcels of real estate.

	Description 1	2	3
18.02		$	%..........%
18.03		$	%..........%
18.04		$	%..........%
18.05		$	%..........%
18.06		$	%..........%

See Accompanying Independent Auditors' Report.

UNITRIN DIRECT INSURANCE COMPANY
SCHEDULE 2 -SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES SCHEDULE
FOR THE YEAR ENDED DECEM BER 31, 2008

19. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

		At Year-end		At End of Each Quarter		
				1st Qtr	2nd Qtr	3rd Qtr
		1	2	3	4	5
19.01	Securities lending agreements (do not include assets held as collateral for such transactions)	$	%	$	$	$
19.02	Repurchase agreements	$	%	$	$	$
19.03	Reverse repurchase agreements	$	%	$	$	$
19.04	Dollar repurchase agreements	$	%	$	$	$
19.05	Dollar reverse repurchase agreements	$	%	$	$	$

20. Amounts and percentages of the reporting entity's total admitted assets indicated below for warrants not attached to other financial instruments, options, caps, and floors:

		Owned		Written	
		1	2	3	4
20.01	Hedging	$	%	$	%
20.02	Income generation	$	%	$	%
20.03	Other	$	%	$	%

21. Amounts and percentages indicated below of the reporting entity's total admitted assets of potential exposures for collars, swaps, and forwards:

		At Year-end		At End of Each Quarter		
				1st Qtr	2nd Qtr	3rd Qtr
		1	2	3	4	5
21.01	Hedging	$	%	$	$	$
21.02	Income generation	$	%	$	$	$
21.03	Replications	$	%	$	$	$
21.04	Other	$	%	$	$	$

22. Amounts and percentages indicated below of the reporting entity's total admitted assets of potential exposures for futures contracts:

		At Year-end		At End of Each Quarter		
				1st Qtr	2nd Qtr	3rd Qtr
		1	2	3	4	5
22.01	Hedging	$	%	$	$	$
22.02	Income generation	$	%	$	$	$
22.03	Replications	$	%	$	$	$
22.04	Other	$	%	$	$	$

UNITRIN DIRECT INSURANCE COMPANY
SCHEDULE 3 -SUPPLEMENTAL REINSURANCE INTERROGATORIES SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2008
(Dollars in Thousands)

9.1 - Has the reporting entity ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement: (i) it recorded a positive or negative underwriting result greater than 3% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 3% of prior year-end surplus as regards policyholders; (ii) it accounted for that contract as reinsurance and not as a deposit; and (iii) the contract(s) contain one or more of the following features that would have similar results:

a) A contract term longer than two years and the contract is non cancellable by the reporting entity during the contract term;
b) A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;
c) Aggregate stop loss reinsurance coverage;
d) An unconditional or unilateral right by either party to commute the reinsurance contract except for such provisions which are only triggered by a decline in the credit status of the other party;
e) A provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or
f) Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity.

YES [ ] NO [X]

9.2 - Has the reporting entity during the period covered by the statement ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates), excluding cessions to approved pooling arrangements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under common control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member where:

a) The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or
b) Twenty-five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates.

YES [X] NO [ ]

UNITRIN DIRECT INSURANCE COMPANY
SCHEDULE 3 -SUPPLEMENTAL REINSURANCE INTERROGATORIES SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2008
(Dollars in Thousands)

9.3 - If response to both 9.1 and 9.2 is No, responses are not required for the remainder of 9.3 (A-C) below.

A) The aggregate financial statement impact gross of all such ceded reinsurance contracts are as follows:

	As Reported	Reinsurance Effect	Restated Without Reinsurance
Admitted Assets	$ 36,115	$ -	$ 36,115
Liabilities	$ 24,748	$ (45,178)	$ 69,926
Surplus as Regards Policyholders	$ 11,367	$ 45,178	$ (33,811)
Loss Before Taxes	$ (1,591)	$ 21,451	$ (23,042)

B) A summary of the contract terms of such reinsurance contracts is(are) as follows:
90% Quota Share reinsurance agreement with Trinity Universal Insurance Company.

C) A brief discussion of management's principle objectives in entering into such reinsurance contract(s) including the economic purpose to be achieved, is as follows:
To efficiently use and allocate the capital and surplus within the holding company structure.

9.4 - Except for transactions meeting the requirements of paragraph 30 of SSAP No. 62, *Property and Casualty Reinsurance,* has the reporting entity ceded any risk under any reinsurance contract (or under multiple contract with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:

a) Accounted for that contract as reinsurance (either prospective or retroactive) under SSAP and as a deposit under GAAP; or
b) Accounted for that contract as reinsurance under GAAP and as a deposit under SSAP?

YES [ ] NO [X]

If response is yes, please provide an explanation why the contract(s) is treated differently for GAAP and SSAP below.